

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Branch-Hillsdale-St. Joseph Comm. Health</b>	County <b>Branch</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>12/21/05</b>	Date Accountant Report Submitted to State: <b>2/24/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Abraham &amp; Gaffney, P.C.</b>			
Street Address <b>3511 Coolidge, Suite 100</b>	City <b>East Lansing</b>	State <b>MI</b>	ZIP <b>48823</b>
Accountant Signature <i>Abraham &amp; Gaffney, P.C. Aaron M. Jones</i>		Date <b>2/24/06</b>	

**Branch - Hillsdale - St. Joseph  
Community Health Agency  
Coldwater, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2005**

Branch - Hillsdale - St. Joseph  
Community Health Agency

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Dale J. Abraham, CPA  
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**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Public Health  
Branch - Hillsdale - St. Joseph  
Community Health Agency  
Coldwater, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Branch - Hillsdale - St. Joseph Community Health Agency as of and for the year ended September 30, 2005, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Branch - Hillsdale - St. Joseph Community Health Agency as of September 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2005, on our consideration of the Branch - Hillsdale - St. Joseph Community Health Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying other supplementary information and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 21, 2005



*"Your Community Partner  
in Public Health"*

## **Branch-Hillsdale-St. Joseph Community Health Agency**

### **Management's Discussion and Analysis For Fiscal Year Ended September 30, 2005**

Branch-Hillsdale-St. Joseph Community Health Agency is in its third year of implementing the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Agency's financial performance during the fiscal year ended September 30, 2005, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Agency's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

#### **Financial Highlights**

- The assets of the Agency exceeded its liabilities at September 30, 2005, by \$858,398 at the government-wide level. Of this amount, \$842,825 (unrestricted net assets) may be used to meet the Agency's ongoing obligations.
- The Agency's total net assets increased \$127,386 as a result of this year's operations.
- As of September 30, 2005, the Agency's governmental fund reported an ending fund balance of \$1,016,656 and increase of \$133,525.
- As of September 30, 2005, the unreserved and undesignated fund balance was \$732,121, or approximately 11 percent of total fund expenditures.

#### **Overview of the Financial Statements**

The Branch-Hillsdale-St. Joseph Community Health Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements:** The government-wide financial statements provide information about the activities of the entire Agency. They present an overall view of the Agency's finances, reporting the assets and liabilities on fiscal year ending September 30, 2005.

The statement of net assets present information on all of the Branch-Hillsdale-St. Joseph Community Health Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2004/05. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Branch-Hillsdale-St. Joseph Community Health Agency's are supported by intergovernmental revenues, governmental grants, fees and charges for services, interest and rents, local, and contributions. The governmental activities of the Agency are all considered health and sanitation programs. The Area Agency on Aging (AAA) is an autonomous department within CHA responsible for administering Federal and State funds to local aging programs and organizations within our two (2) county planning and service area (Branch & St. Joseph Counties only). We are designated by the Michigan Office of Services to the Aging (OSA) to carry out this function. The Agency does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to the Branch-Hillsdale-St. Joseph Community Health Agency.

**Fund Financial Statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Branch-Hillsdale-St. Joseph Community Health Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency operates with one fund, which is considered a governmental fund.

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Branch-Hillsdale-St. Joseph Community Health Agency adopts an annual appropriated budget for its Health Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 1-6 of this report.

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7-14 of this report.

**Other Information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 15. Other supplementary information concerning expenditures of federal awards can be found on pages 16-25 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Branch-Hillsdale-St. Joseph Community Health Agency, assets exceeded liabilities by \$858,398. A comparative analysis of net assets as of September 30, 2005 and 2004 is presented below:

	<u>2005</u>	<u>2004</u>
Current assets	\$ 1,497,390	\$ 1,318,183
Capital assets	<u>15,573</u>	<u>20,352</u>
Total assets	1,512,963	1,338,535
Current liabilities	611,904	566,330
Noncurrent liabilities	<u>42,661</u>	<u>41,193</u>
Total liabilities	<u>654,565</u>	<u>607,523</u>
Net assets		
Invested in capital assets	15,573	20,352
Unrestricted	<u>842,825</u>	<u>710,660</u>
Total net assets	<u>\$ 858,398</u>	<u>\$ 731,012</u>



Unrestricted net assets (the part of net assets that can be used to finance day to day operations) increased by \$132,165. This represents an increase of approximately 18 percent. The current level of unrestricted net assets for our governmental activities stands at \$842,825, or approximately 11 percent of annual expenses. This is within our desired range.

The following table shows the comparative changes of net assets as of September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Program revenues		
Charges for services	\$ 886,713	\$ 901,151
Operating grants and other/contributions	4,704,444	4,707,474
General revenue		
County appropriations	947,187	942,373
Cigarette tax	60,706	63,482
Interest	<u>21,658</u>	<u>7,226</u>
Total revenues	6,620,708	6,621,706
Program Expenses	<u>6,493,322</u>	<u>6,628,490</u>
Change in net assets	<u>\$ 127,386</u>	<u>\$ ( 6,784 )</u>

During the year, charges for services decreased approximately \$14,438 due to the decreased services. Operating grants and other/contributions decreased by \$3,030. Individual programs and grants either increased or decreased but resulted in little total change from the previous year. Sexual Transmitted Diseases (STD) was only funded through the first quarter of the fiscal year. Vision and Hearing was closed after the school year closed for summer break pending funding for the next fiscal year.

Total expenses decreased by approximately 2% over last year. Significant reasons for the decrease were a small reduction in staffing. The Agency also had difficulty hiring qualified staff for replacement in a timely manner. Although the Agency had increases in general salaries and cost of living adjustments, increases in on-going health insurance costs, and increases in required contributions to the Agency's Retirement fund (MERS), the staffing issues offset the expenses in total.

### **Financial Analysis of the Government's Fund**

As noted earlier, the Branch-Hillsdale-St. Joseph Community Health Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Fund:** The focus of the Branch-Hillsdale-St. Joseph Community Health Agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Branch-Hillsdale-St. Joseph Community Health Agency's financing requirements. In particular, unreserved-undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Branch-Hillsdale-St. Joseph Community Health Agency's governmental fund reported an ending fund balance of \$1,016,656, an increase of \$133,525 in comparison with the prior year. Of this total, \$90,620 has been reserved for prepaid expenditures. There has been \$193,915 designated for vacation and personal leave. The unreserved and undesignated fund balance at September 30, 2005, was \$732,121.

As a measure of the governmental fund's liquidity, it may be useful to compare both unreserved fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Total fund balance represent approximately 16 percent of total fund expenditures, while unreserved-undesignated fund balance represents approximately 11 percent of total fund expenditures.

### **Governmental Fund Budgetary Highlights**

Over the course of the year, the Branch-Hillsdale-St. Joseph Community Health Agency's Board of Directors amended the budget to take into account events that occurred during the year. The most significant change was to decrease estimated intergovernmental Federal/State grants. Because the grant revenue is tied to performance, the offset for this amended was to decrease program costs.

The significant variances between the final amended budget and actual amounts for Federal/State grants were due to decreased funding. Although, increases in charges for services, interest received, and rents collected were offset which resulted in approximately very little difference in total. On the expenditure side, the Agency realized a savings for the fiscal year on professional liability insurance due to having the expense incurred on our fiscal year and not on the calendar year. Other line item variances which resulted in a savings were due to staffing.

### **Capital Asset and Debt Administration**

**Capital Assets:** The Branch-Hillsdale-St. Joseph Community Health Agency's investment in capital assets as of September 30, 2005, amounts to \$15,573 (net of accumulated depreciation).

**Long-term Obligations:** The Branch-Hillsdale-St. Joseph Community Health Agency does not have any outstanding debt issues. The only long-term obligation the Agency currently has relates to compensation (e.g., unused vacation and personal leave). The total liability for this long-term obligation at September 30, 2005, is \$193,915.

## **Economic Factors and Next Year's Budget and Rates**

For the fiscal year ending September 30, 2006, we anticipate having Vision and Hearing restored in funding provided through the Comprehensive Planning, Budgeting and Contracting (CPBC) agreement with the Michigan Department of Community Health.

The Agency will add the Health Care Access program for the fiscal year which will add additional funding from Branch Hillsdale St. Joseph Health Plan. Overall, the stability of funding has a significant impact on the types and levels of service we are able to provide as a Community Health Agency.

Because the services of the Branch-Hillsdale-St. Joseph Community Health Agency are provided based on need and not the ability to pay and the financial condition of the Branch-Hillsdale-St. Joseph Community Health Agency is healthy, the original budget for the fiscal year ending September 30, 2006, did not incorporate any increase in any fees charged for services to the general public at that time.

## **Requests for Information**

This financial report is designed to provide a general overview of the Branch-Hillsdale-St. Joseph Community Health Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Donna Cowden**  
**Chief Financial Officer**  
**Branch-Hillsdale-St. Joseph Community Health Agency**  
**570 Marshall Road**  
**Coldwater, MI 49036**  
**Office: 517-279-9561, ext. 128**  
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**E-mail: [cowdend@bhsj.org](mailto:cowdend@bhsj.org)**

## **BASIC FINANCIAL STATEMENTS**

Branch - Hillsdale - St. Joseph  
Community Health Agency

STATEMENT OF NET ASSETS

September 30, 2005

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 938,633
Accounts receivable	45,607
Due from other governmental units - Federal/State	173,413
Due from others	129,870
Prepaid expenses	90,620
Inventory	119,247
Total current assets	1,497,390
Noncurrent assets	
Capital assets, net of accumulated depreciation	15,573
TOTAL ASSETS	1,512,963
LIABILITIES	
Current liabilities	
Accounts payable	171,922
Accrued wages	106,657
Other accrued liabilities	13,070
Deferred revenue	169,001
Current portion of compensated absences	151,254
Total current liabilities	611,904
Noncurrent liabilities	
Noncurrent portion of compensated absences	42,661
TOTAL LIABILITIES	654,565
NET ASSETS	
Invested in capital assets	15,573
Unrestricted	842,825
TOTAL NET ASSETS	\$ 858,398

See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph  
Community Health Agency

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for	Operating	Revenues and
		Services	Grants and	Changes in
			Contributions	Net Assets
				Governmental
				Activities
Governmental activities:				
Personal health	\$ 4,108,393	\$ 341,940	\$ 3,248,521	\$ (517,932)
Environmental health	1,191,299	498,046	526,445	(166,808)
Aging services	958,851	-	929,478	(29,373)
Administration	163,965	46,727	-	(117,238)
Other	70,814	-	-	(70,814)
Total governmental activities	<u>\$ 6,493,322</u>	<u>\$ 886,713</u>	<u>\$ 4,704,444</u>	(902,165)
General revenues				
Interest				21,658
County appropriations				
Regular				929,187
Other				18,000
Cigarette tax				<u>60,706</u>
TOTAL GENERAL REVENUES				<u>1,029,551</u>
CHANGE IN NET ASSETS				127,386
Net assets, beginning of the year				<u>731,012</u>
Net assets, end of the year				<u>\$ 858,398</u>

See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph  
Community Health Agency

GOVERNMENTAL FUND BALANCE SHEET

September 30, 2005

	Special Revenue
ASSETS	
Cash	\$ 938,633
Accounts receivable	45,607
Due from other governmental units - Federal/State	173,413
Due from others	129,870
Prepaid expenditures	90,620
Inventory	119,247
TOTAL ASSETS	<u>\$ 1,497,390</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 171,922
Accrued wages	106,657
Other accrued liabilities	13,070
Deferred revenue	189,085
TOTAL LIABILITIES	480,734
FUND EQUITY	
Fund balance	
Reserved for prepaid expenditures	90,620
Unreserved	
Designated for vacation and personal leave	193,915
Undesignated	732,121
TOTAL FUND EQUITY	<u>1,016,656</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,497,390</u>

See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph  
Community Health Agency

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

September 30, 2005

**Total fund balance - governmental fund** \$ 1,016,656

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 157,865	
Accumulated depreciation is	<u>(142,292)</u>	15,573

Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.  
Long-term liabilities at year-end consist of:

Compensated absences	(193,915)
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Revenues not received within a specified period of time after year end are not considered  
"available" to pay current period expenditures and therefore are recorded as deferred  
revenues at the fund level.

<u>20,084</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 858,398</u></u>
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See accompanying notes to financial statements.



Branch - Hillsdale - St. Joseph  
Community Health Agency

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND

Year Ended September 30, 2005

	Special Revenue
REVENUES	
Licenses and permits	\$ 278,322
Intergovernmental	
Federal/State	4,614,405
Local	6,975
Charges for services	577,178
Interest and rents	62,851
Other - contributions	67,771
	<hr/>
TOTAL REVENUES	5,607,502
EXPENDITURES	
Current	
Salaries and wages	2,665,431
Fringe benefits	911,161
Supplies and materials	992,893
Contractual	992,755
Communications	104,757
Travel and training	138,629
Insurance	57,778
Repairs and maintenance	46,708
Building and equipment lease and rentals	450,274
Printing and advertising	48,793
Postage	19,939
Other	52,752
	<hr/>
TOTAL EXPENDITURES	6,481,870
	<hr/>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(874,368)
OTHER FINANCING SOURCES	
Operating transfers in	
County appropriations - regular	929,187
County appropriations - other	18,000
Cigarette tax	60,706
	<hr/>
TOTAL OTHER FINANCING SOURCES	1,007,893
	<hr/>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	133,525
Fund balance, beginning of year	<hr/> 883,131
Fund balance, end of year	<hr/> <hr/> \$ 1,016,656

See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph  
Community Health Agency

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

**Net change in fund balance - governmental fund** \$ 133,525

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (4,779)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues at the fund level. In the current year, these amounts consist of:

Increase in deferred charges for services 5,313

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in accrued compensated absences (6,673)

**Change in net assets of governmental activities** \$ 127,386

See accompanying notes to financial statements.

Branch - Hillsdale - St. Joseph  
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Branch - Hillsdale - St. Joseph Community Health Agency is a joint venture between Branch, Hillsdale, and St. Joseph Counties, and was established to provide public health services. The Community Health Agency Board has representation and provides services to Branch, Hillsdale, and St. Joseph Counties. Each County provides annual appropriations and passes through the statutory amounts of cigarette tax funding to subsidize operations. The current funding formula approved by the Community Health Agency requires Branch, Hillsdale, and St. Joseph Counties to provide approximately 29, 30, and 41 percent, respectively.

The primary revenues of the Branch - Hillsdale - St. Joseph Community Health Agency are charges for services, Federal and State grants and County appropriations.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Branch - Hillsdale - St. Joseph Community Health Agency. The Agency is considered a "joint venture" of Branch, Hillsdale, and St. Joseph Counties.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Agency as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Agency and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and all County appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Agency.

FUND FINANCIAL STATEMENTS

The Agency uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Agency's individual major fund.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the Agency is:

- a. Special Revenue Fund - This fund is used to account for all financial resources of the Agency, which are restricted to expenditures for specified health related purposes.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The annual budget of the Agency is prepared by Agency management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash

Cash consists of the Agency's payroll and accounts payable checking accounts, branch office depository accounts, imprest cash, and cash on deposit with the Branch County Treasurer.

7. Receivables and Deferred Revenue

Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

The Agency has recognized the revenue related to charges for services at the time the services are performed and billed to the extent such amounts are estimated to be received. Contractual adjustments by third-party payers are treated as a reduction to revenues.

The Agency has recorded deferred revenue at both the government-wide and the fund level equaling the amount of vaccine inventory received from the State of Michigan that is on hand at year-end. The Agency has also recorded deferred revenue at the fund level for amounts due to the Agency but not collected within sixty days of fiscal year-end.

Branch - Hillsdale - St. Joseph  
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

8. Inventories

Inventories are stated at cost on a first in/first out basis. Inventory consists of vaccines received from the State of Michigan. Vaccine inventory on hand at year-end has been reported as deferred revenue.

9. Capital Assets

Capital assets include equipment and land improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more, with estimated useful lives of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	7 years
Equipment	4-10 years

The Agency has no assets that would be classified as infrastructure assets.

10. Compensated Absences

The Agency employees are granted vacation and personal leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and personal time. This amount, along with related payroll taxes has been recorded as a current and long-term liability in the government-wide financial statements.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since its inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH**

In accordance with Michigan Compiled Laws, the Agency is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE B: CASH - CONTINUED**

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of September 30, 2005, the carrying amount of the Agency's deposits was \$4,864 and the bank balance was \$164,058, of which \$147,197 was covered by federal depository insurance. The balance of \$16,861 was uninsured and uncollateralized.

The cash balances reported in the basic financial statements include \$8,533 in imprest cash and \$925,236 in cash that is on deposit with the Branch County Treasurer. The cash on deposit with the Branch County Treasurer is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2005, the Agency held no investments that would be required to be rated.

Interest rate risk

The Agency has not adopted a policy to address interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Agency has not adopted a policy to address concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer.

Custodial credit risk

The Agency has not adopted a policy to address custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer.

Branch - Hillsdale - St. Joseph  
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE C: CAPITAL ASSETS**

The following provides a summary of the changes in capital assets for the year ended September 30, 2005:

	Balance <u>Oct. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2005</u>
Governmental activities:				
Equipment	\$ 135,142	\$ -	\$ -	\$ 135,142
Land Improvements	<u>22,723</u>	<u>-</u>	<u>-</u>	<u>22,723</u>
Totals at historical cost	157,865	-0-	-0-	157,865
Less accumulated depreciation for:				
Equipment	( 125,406 )	( 3,718 )	-	( 129,124 )
Land Improvements	<u>( 12,107 )</u>	<u>( 1,061 )</u>	<u>-</u>	<u>( 13,168 )</u>
Total accumulated depreciation	<u>( 137,513 )</u>	<u>( 4,779 )</u>	<u>-0-</u>	<u>( 142,292 )</u>
Capital assets, net	<u>\$ 20,352</u>	<u>\$( 4,779 )</u>	<u>\$ -0-</u>	<u>\$ 15,573</u>

Depreciation expense appears on the statement of activities in these governmental functions: Personal Health \$1,736, Environmental Health \$718, Aging Services \$124, Administration \$2,057, and Other \$144.

**NOTE D: COMPENSATED ABSENCES**

Employees of the Branch - Hillsdale - St. Joseph Community Health Agency are granted vacation and personal leave in varying amounts based on length of service. Upon termination of employment, employees are paid accumulated vacation at full current rate of pay to a maximum of 360 hours, and accumulated personal leave at full current rate of pay of hours accumulated up to a maximum of 30 hours.

Accumulated vacation leave and personal pay represents a liability to the Agency, which is presented in a current and long term portion of the liability. For this reason, the total liability is reported in the government-wide financial statements and represents a current liability of \$151,254 and a long-term liability of \$42,661 at September 30, 2005. Payments to employees for vacation leave and personal pay are recorded as expenditures when they are used and payments are actually made to the employees.

The following is a summary of changes in compensated absences for the year ended September 30, 2005:

	Balance <u>Oct. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2005</u>	Amount Due Within <u>One Year</u>
Compensated Absences	<u>\$ 187,242</u>	<u>\$ 6,673</u>	<u>\$ -0-</u>	<u>\$ 193,915</u>	<u>\$ 151,254</u>

**NOTE E: RETIREMENT PLAN**

Plan Description

The Agency participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Agency. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Branch - Hillsdale - St. Joseph  
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE E: RETIREMENT PLAN - CONTINUED**

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Board of Public Health. The plan requires a contribution from the employees of three (3) percent of wages depending on the employee group covered. The Agency is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended September 30, 2005, the Agency's annual pension cost of \$157,596 for the plan was equal to the Agency's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation and (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period.

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 7,160,660	\$ 7,609,451	\$ 8,162,790
Actuarial accrued liability (AAL) (entry age)	6,810,239	7,328,279	8,234,660
Unfunded (overfunded) AAL	( 350,421 )	( 281,172 )	71,870
Funded ratio	105 %	104 %	99 %
Covered payroll	2,553,708	2,441,083	2,552,172
UAAL as a percentage of covered payroll	0 %	0 %	0 %

  

	Year Ended September 30,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 50,275	\$ 125,397	\$ 157,596
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

**NOTE F: DEFERRED COMPENSATION**

The Branch - Hillsdale - St. Joseph Community Health Agency offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to substantially all Agency employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered through the National Association of Counties (NACO) and Nationwide Retirement Solutions.

Legislative change has been made to 457 plans which mandate that no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.



Branch - Hillsdale - St. Joseph  
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE F: DEFERRED COMPENSATION - CONTINUED**

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As of September 30, 1999, the Agency had implemented changes to be in compliance with the new requirement. As a result, the plan assets are not reported by the Agency because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

**NOTE G: RISK MANAGEMENT**

The Agency carries commercial insurance for the risk of loss due to workers' compensation claims.

The Agency also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Agency has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

**NOTE H: NON-CANCELABLE OPERATING LEASE OBLIGATIONS**

The Branch - Hillsdale - St. Joseph Community Health Agency has entered into twenty-year, non-cancelable long-term leases with NHF Sub St. Joseph and Hillsdale Public Health Building Corporation, nonprofit organizations, for the St. Joseph and Hillsdale branch offices space, respectively.

<u>Hillsdale</u>	
2006	\$ 79,200
2007	79,200
2008	79,200
2009	79,200
2010	79,200
2011 and thereafter	<u>257,400</u>
	653,400
<u>St. Joseph</u>	
2006	\$ 72,000
2007	72,000
2008	72,000
2009	72,000
2010	72,000
2011 and thereafter	<u>450,000</u>
	<u>810,000</u>
TOTAL PAYMENTS	<u>\$ 1,463,400</u>

Branch - Hillsdale - St. Joseph  
Community Health Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

**NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Agency has set aside for specific purposes.

The following are the fund balance reserves as of September 30, 2005:

Reserved for prepaid expenditures	<u>\$ 90,620</u>
-----------------------------------	------------------

The following are the fund balance designations as of September 30, 2005:

Designated for vacation and personal leave	<u>\$ 193,915</u>
--	-------------------

## **REQUIRED SUPPLEMENTARY INFORMATION**

Branch - Hillsdale - St. Joseph  
Community Health Agency

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2005

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits	\$ 252,500	\$ 277,650	\$ 278,322	\$ 672
Intergovernmental				
Federal/State	4,468,483	4,634,936	4,614,405	(20,531)
Local	-	-	6,975	6,975
Charges for services	472,576	566,423	577,178	10,755
Interest and rents	46,482	49,757	62,851	13,094
Other - contributions	47,500	65,396	67,771	2,375
TOTAL REVENUES	5,287,541	5,594,162	5,607,502	13,340
EXPENDITURES				
Current				
Salaries and wages	2,870,733	2,644,731	2,665,431	(20,700)
Fringe benefits	974,314	935,856	911,161	24,695
Supplies and materials	992,435	1,010,703	992,893	17,810
Contractual	970,125	989,393	992,755	(3,362)
Communications	111,831	108,682	104,757	3,925
Travel and training	166,249	159,221	138,629	20,592
Insurance	87,111	93,373	57,778	35,595
Repairs and maintenance	41,277	60,158	46,708	13,450
Building and equipment lease and rentals	462,102	493,741	450,274	43,467
Printing and advertising	25,181	40,736	48,793	(8,057)
Postage	22,570	19,794	19,939	(145)
Other	31,026	43,982	52,752	(8,770)
TOTAL EXPENDITURES	6,754,954	6,600,370	6,481,870	118,500
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,467,413)	(1,006,208)	(874,368)	131,840
OTHER FINANCING SOURCES				
Operating transfers in				
County appropriations - regular	1,257,224	834,946	929,187	94,241
County appropriations - other	146,707	110,556	18,000	(92,556)
Cigarette tax	63,482	60,706	60,706	-0-
TOTAL OTHER FINANCING SOURCES	1,467,413	1,006,208	1,007,893	1,685
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-0-	-0-	133,525	133,525
Fund balance, beginning of year	883,131	883,131	883,131	-0-
Fund balance, end of year	\$ 883,131	\$ 883,131	\$ 1,016,656	\$ 133,525

## OTHER SUPPLEMENTARY INFORMATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grants Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE Passed through Michigan Department of Community Health Special Supplemental Nutrition Program for Women, Infants and Children (WIC) FY 04-05 Regular	10.557 <sup>(b)</sup>	N/A	\$ 550,204	\$ 550,204
U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY Passed through Michigan Department of Environmental Quality State Indoor Radon Grants <sup>(a)</sup>	66.032	N/A	2,600	2,600
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	N/A	4,982	4,982
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through Michigan Department of Community Health Injury Prevention and Control Research and State and Community Based Programs FY 04-05 Traffic Safety	93.136	N/A	15,000	15,000
Family Planning - Services FY 04-05 Project	93.217	N/A	123,620	123,620
Immunization Grants FY 04-05 Vaccine supply FY 04-05 IAP FY 04-05 Vaccine handling <sup>(a)</sup>	93.268	N/A N/A N/A	634,679 70,148 5,385	634,679 70,148 5,385
Centers for Disease Control and Prevention - Investigations and Technical Assistance Bioterrorism	93.283		710,212	710,212
Focus A Focus B Focus E Focus F Focus G		N/A N/A N/A N/A N/A	69,645 38,677 72,820 37,872 38,190	69,645 38,677 72,820 37,872 38,190
			257,204	257,204

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grants Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Passed through Michigan Department of Community Health - continued				
Cooperative Agreements for State-based Diabetes Control				
Programs and Evaluation of Surveillance Systems				
FY 04-05 <sup>(a)</sup>	93.988	N/A	\$ 42,162	\$ 42,612
Maternal and Child Health Services Block Grant				
FY 04-05 Local MCH CSHCS Block Grant	93.994	N/A	97,788	97,788
FY 04-05 Family Planning		N/A	25,722	25,722
FY 04-05 Case Management Services (CC-LBS) <sup>(a)</sup>		N/A	<u>21,998</u>	<u>21,998</u>
			145,508	145,508
Passed through Michigan Department of Human Services				
and Michigan Department of Community Health				
Medical Assistance Program (Title XIX Medicaid)	93.778	N/A	14,101	14,101
Medicaid Administration <sup>(a)</sup>				
FY 04-05				
Passed through Michigan Department of Human Services				
Promoting Safe and Stable Families				
FY 04-05 Healthy Families Nurturing Community (St. Joe)	93.556	CHPR-03-75001	41,694	41,694
FY 04-05 Strong Families/Immunizations (Hillsdale)		SFSC-04-30002	<u>18,457</u>	<u>18,457</u>
			60,151	60,151
Temporary Assistance for Needy Families				
FY 04-05 Healthy Families Nurturing Community (St. Joe)	93.558	CHPR-03-75001	65,213	65,213
FY 04-05 0-3 Secondary Prevention (Hillsdale)		CTFPR-05-30001	82,250	82,250
FY 04-05 Strong Families/Immunizations (Hillsdale)		SFSC-04-30002	<u>18,000</u>	<u>18,000</u>
			165,463	165,463
Community-Based Child Abuse Prevention Grants				
FY 04-05 Healthy Beginnings - Teens	93.590	CTFDS-04-30001	22,500	22,500

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED Passed through State Department of Office on Services to the Aging				
Title III-D Special Programs for the Aging (Disease Prevention and Health Promotion Services) FY 04-05	93.043	N/A	\$ 5,489	\$ 5,489
Title III-B Special Programs for the Aging (Grants for Supportive Services and Senior Centers) FY 04-05 Administration <sup>(a)</sup> FY 04-05 Regular	93.044 <sup>(b) (c)</sup>	N/A N/A	13,091 <u>115,864</u>	13,091 <u>115,864</u>
			128,955	128,955
Title III-C Special Programs for the Aging (Nutrition Services) FY 04-05 Nutrition Congregate FY 04-05 Nutrition Home Delivered Meals FY 04-05 Nutrition Administration <sup>(a)</sup>	93.045 <sup>(b) (c)</sup>	N/A N/A N/A	128,474 61,819 <u>22,091</u>	128,474 61,819 <u>22,091</u>
			212,384	212,834
National Family Caregiver Support FY 04-05 Administration <sup>(a)</sup> FY 04-05 Regular	93.052	N/A N/A	5,728 <u>60,154</u>	5,728 <u>60,154</u>
			65,882	65,882
Nutrition Services Incentive Program FY 04-05 Regular	93.053 <sup>(b) (c)</sup>	N/A	<u>88,160</u>	<u>88,160</u>
TOTAL FEDERAL AWARD EXPENDITURES			<u>\$ 2,614,577</u>	<u>\$ 2,614,577</u> <sup>(d)</sup>



Branch - Hillsdale - St. Joseph  
Community Health Agency

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2005

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Branch - Hillsdale - St. Joseph Community Health Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) - (d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following percentages of Federal participation.

<u>Program</u>	<u>CFDA Number</u>	<u>Percent</u>
State Indoor Radon Grants	66.032	50.0 %
Title III-B Administration	93.044	32.0
Title III-C Administration	93.045	54.0
National Family Caregiver Administration	93.052	14.0
Immunization Grants - Vaccine Handling	93.268	25.0
Medicaid Administration	93.778	50.0
Cooperative Agreements for State-based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	18.5
Case Management Services (CC-LBS)	93.994	90.5

- (b) Denotes programs tested as "major programs".
- (c) Denotes programs required to be clustered by United States Department of Health and Human Services.
- (d) The following reconciles the federal revenues reported in the September 30, 2005, financial statements to the expenditures of the Agency administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Federal/State Revenue (per fund financial statements)	\$ 4,614,405
<u>Less: Portions of grant funding considered "State" funding</u>	<u>( 1,999,828 )</u>
	<u>\$ 2,614,577</u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Public Health  
Branch - Hillsdale - St. Joseph  
Community Health Agency  
Coldwater, Michigan

We have audited the financial statements of the governmental activities and major fund of Branch - Hillsdale - St. Joseph Community Health Agency as of and for the year ended September 30, 2005, which collectively comprise Branch - Hillsdale - St. Joseph Community Health Agency basic financial statements and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Branch - Hillsdale - St. Joseph Community Health Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management in a separate letter dated December 21, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Branch - Hillsdale - St. Joseph Community Health Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board and management of the Branch - Hillsdale - St. Joseph Community Health Agency, pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 21, 2005

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Public Health  
Branch - Hillsdale - St. Joseph  
Community Health Agency  
Coldwater, Michigan

Compliance

We have audited the compliance of Branch - Hillsdale - St. Joseph Community Health Agency with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to each of its major Federal programs for the year ended September 30, 2005. Branch - Hillsdale - St. Joseph Community Health Agency's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Branch - Hillsdale - St. Joseph Community Health Agency's management. Our responsibility is to express an opinion on Branch - Hillsdale - St. Joseph Community Health Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Branch - Hillsdale - St. Joseph Community Health Agency's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Branch - Hillsdale - St. Joseph Community Health Agency's compliance with those requirements.

In our opinion, Branch - Hillsdale - St. Joseph Community Health Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ending September 30, 2005.

Internal Control Over Compliance

The management of Branch - Hillsdale - St. Joseph Community Health Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Branch - Hillsdale - St. Joseph Community Health Agency's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board and management of Branch - Hillsdale - St. Joseph Community Health Agency, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 21, 2005

Branch - Hillsdale - St. Joseph  
Community Health Agency

SCHEDULE OF FINDINGS

Year Ended September 30, 2005

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements of the Branch - Hillsdale - St. Joseph Community Health Agency.

There were no reportable conditions disclosed by the audit of the basic financial statements.

We noted no instances of noncompliance with laws, regulations, contracts, and grant agreements that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We disclosed no findings regarding internal controls or compliance related to the major programs tested.

The major programs tested to cover 25 percent of the total Federal expenditures were the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557) and the Aging Cluster (CFDA 93.044, 93.045, and 93.053 are considered a cluster by the United States Department of Health and Human Services). Total Federal expenditures for the year ended September 30, 2005, for the major programs were \$980,153, which is approximately 37 percent of the total Federal Award expenditures. The Agency qualified as a low risk auditee.

The dollar threshold for Type A programs of the Branch - Hillsdale - St. Joseph Community Health Agency was \$300,000. The Agency had three (3) programs that qualified as Type A (Immunization Grants; Special Supplemental Nutrition Program for Women, Infant, and Children (WIC); and the Aging Cluster). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Condition Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements to the Financial Statements.

None

Findings Related to Compliance with Requirements to the Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

None

Branch - Hillsdale - St. Joseph  
Community Health Agency

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended September 30, 2005

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
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Aaron M. Stevens, CPA  
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MANAGEMENT LETTER

To the Board of Public Health  
Branch - Hillsdale - St. Joseph  
Community Health Agency  
Coldwater, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Branch - Hillsdale - St. Joseph Community Health Agency for the year ended September 30, 2005. In connection with the audit, we feel that a certain change in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. This suggestion is a result of our evaluation of the internal controls and our discussions with management.

The Board should amend the Agency's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with management, it was noted that the Agency has not amended their investment policy to addresses the reporting requirements of GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Agency. These resources are necessary for the delivery of the Agency's services and programs. Effective for the year ended September 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Agency's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Agency's financial statements by GASB Statement No. 40.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements and this report does not affect our report on the financial statements dated December 21, 2005.

This report is intended solely for the use of management and the Board of Health of the Branch - Hillsdale - St. Joseph Community Health Agency and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 21, 2005